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MINUTES OF

PRODIGY SERVICES COMPANY

EXECUTIVE COMMITTEE MEETING

WHITE PLAINS, N.Y.

NOVEMBER 22, 1988

A meeting of the Executive Committee of Prodigy Services Company, a partnership organized under the laws of the State of New York, was held at 7:30 a.m. on November 22, 1988 at the Prodigy offices located at 445 Hamilton Ave., White Plains, NY.

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| Members Present: | Mr. R. T. Liebhaber<br>Mr. C. F. Moran |
| Absent: | None |
| Others Present: | Mr. T. C. Papes<br>Mr. J. H. Beall<br>Mr. R. S. Glatzer<br>Mr. H. Heilbrunn<br>Mr. J. M. Hewitt<br>Mr. H. C. Perce<br>Mr. G. M. Perry<br>Mr. J. M. Pugliese<br>Mr. R. M. Shapiro<br>Mr. H. E. Smith<br>Mr. F. Larson (Part time)<br>Mr. P. D. Lips (Part time)<br>Mr. D. L. Polenz (Part time)<br>Ms. S. G. Weis (Part time) |

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Mr. C. F. Moran presided as Chairman of the meeting, and Mr. Perry, Secretary of the Company, recorded the minutes. Present at the commencement of the meeting were Messrs. Papes, Beall, Glatzer, Heilbrunn, Hewitt, Perce, Perry, Polenz, Pugliese, Shapiro and Smith.

I. MEMBERSHIP MARKETING REPORT

The Chairman first called upon Messrs. Glatzer, Larson and Polenz who, using visual aids copies of which are attached as Exhibits A, B and C, respectively, reported on a variety of Membership Marketing matters.

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A. <u>Membership Orders and Enrollments.</u> Mr. Glatzer began the report by saying that as of November 18 the Company had filled about 38,000 membership orders (including sales at retail), from which about 24,000 membership enrollments have been obtained, for an overall enrollment conversion of about 64%. He said he expects about 50,000 orders and about 32,000 enrollments by year-end. With respect to conversion from free trials to paying memberships, he said that: (a) of the 191 bills mailed in September, 52% have converted, 30% have cancelled, and 15% have not responded; and (b) of the 3,108 bills mailed in October, 50% have converted, 24% have cancelled, and 26% have not responded. He said that an additional 2,903 bills were mailed in November, but the returns to date are not significant.

B. <u>Distribution Chain Activities.</u> Mr. Larson then reported on the major activities in the distribution chain. He said that to date sales of about $600,000 have been made into the retail channels, representing retail value of about $1 million. He then said, among other things, that: (a) a "PRODIGY Service Day" has been established with most of the major retail outlets to focus attention on the service; in many cases this will be accompanied by mobile mall demonstrations; (b) training of retail outlet personnel in the sale of the service Start-up Kits has been underway for several weeks and will continue as new outlets are added; (c) ComputerLand plans to make a special offer under which the purchase of an IBM Model 25 would be accompanied by a free PRODIGY Start-up Kit and a modem; (d) work is underway to develop corporate sales packages under which employees of major corporations would receive a special offer for the purchase of a PC and the PRODIGY service; and (e) agreement is close for a special offer to be made to the employees of IBM and Sears. Following his report, Mr. Larson retired from the meeting.

C. <u>Member Satisfaction Research.</u> Mr. Polenz then reported on the results of a "Satisfaction Survey" conducted in September among certain Founding and Charter members. He said that the survey was split between membership "sponsors" (those holding the "A" ID) and non-sponsors (other members in the household). Among sponsors: (a) over 65% indicated a likelihood or high likelihood (scored 5 or above on a scale of 1 to 10) to subscribe to the current service; (b) ease of use, breadth, stock/financial information, and price were the four most important positive things about the service; and (c) speed and lack of depth were the two most important negative things about the service, with speed being far ahead of any other item and having the largest difference between the mean importance and mean satisfaction scores. Among non-sponsors: (a) about 90% responsed with a 5 or above on a scale of 1 to 10 when asked if they "like the service;" (b) breadth, timeliness, shopping at home, and ease of use were the four most important positive things about the service; (c) speed was overwhelmingly the most important negative thing about the service, and had the largest difference between the mean importance and mean satisfaction scores. Among both

groups, increased information depth was scored as the most important of the additional content areas.

Following these reports, Mr. Polenz retired from the meeting and Ms. Weis and Mr. Lips joined the meeting.

## II. GOVERNMENT AFFAIRS REPORT

The Chairman then called on Ms. Weis who, using visual aids copies of which are attached as Exhibit D, reported on the November 17 decision by the FCC on Open Network Architecture. She said that the decision: (a) substantially approved the RHC ONA Plans filed in February; (b) supported continued access by enhanced services providers (ESPs) to existing tariffed services; (c) rejected the BellSouth proposal to impose separate measured tariffs on ESPs; and (d) acknowledged state as well as Federal jurisdiction in the ONA process, and initiated the formation of a Joint Federal/State Conference to sort out the boundaries of the joint jurisdictions. She said that the RHCs are required to file amendments to the Plans by May 19, 1989. With respect to the impact of this decision on Prodigy, she said it can be viewed as a victory on the issue to continued use of existing tariffs, and probably has delayed implementation of any ONA Plans at least through 1989. However, she said that there is considerable uncertainty regarding state implementation of the ONA Plans, which could still result in measured service tariffing. Particular attention will be paid to New York and Florida, both of which have ONA hearings underway.

Following this report, Ms. Weis retired from the meeting.

## III. 1989-95 STRATEGIC BUSINESS PLAN

The Chairman then called upon Mr. Lips who, using visual aids copies of which are attached as Exhibit E, reviewed the Strategic Business Plan for the period 1989-95 (the "'88SBP"). He began by reviewing the 1989 Annual Operating Plan and Capital Budget discussed at the last meeting. He then reviewed the primary "drivers" for the '88SBP, compared to the last Strategic Business Plan (the "'87SBP"). He said that: (a) the membership forecast between the two plans are virtually the same; (b) the usage forecast is down significantly from the '87SBP, resulting in lower operating expense and a reduction in gross fixed assets (beginning in 1992); (c) commercial revenues are virtually unchanged from the '87SBP, but with fewer clients doing a much greater volume of business; and (d) headcount is higher in 1989-90 than under the '87SBP, but the rate of growth moderates in 1991.

Mr. Lips then compared the break-even point between the '87SBP and the '88SBP, noting that break-even occurs in 1991 under both plans, but at a higher rate of both expense and revenue under the '88SBP. Mr. Papes noted that while the net

loss for 1989 is fairly close to the '87SBP number (after adjustment for inflation), the net loss for 1990 is about $20 million over the '87SBP. He said that management will continue to work during the next year to bring those numbers closer together.

Mr. Lips then reviewed the composition of 1991 revenues from both Membership Marketing (total, $175 million) and Commercial Marketing (total, $378 million). He then compared the pre-tax income/loss figures between the '87SBP and the '88SBP, noting that while the pre-tax loss is greater in 1989 and 1990 under the '88SBP, the pre-tax income in the years after 1991 is significantly greater. He reminded the Committee that under both SBPs, profits have been capped at 40% over operating expenses, thereby creating a contingency for new development, new product content, price reductions, or other adjustments to respond to unforeseen events.

Mr. Lips then compared the after-tax cumulative cash requirement figures between the two SBPs, noting that maximum cumulative cash outlay occurs in 1991 under both, but that the full payback occurs in 1993 under the '88SBP rather than 1994 under the '87SBP.

Finally, Mr. Lips compared the '88SBP with the "Eagle" Task Force forecasts, noting that in all relevant measurements the '88SBP is either very close to or better than the Eagle cases. He said that the basic conclusion to be drawn from the '88SBP is that the long-term business opportunity that the Partner companies saw when they established the Company continues undiminished.

Following this report the Committee established the agenda from the upcoming Partners' Committee meeting, and thereafter, there being no further business to come before the meeting, it was adjourned at 12:00 noon.

Respectfully Submitted,

C. F. Moran
Chairman

G. M. Perry
Secretary